

VZCZCXRO6043
RR RUEHRC
DE RUEHSO #0917/01 3181447
ZNR UUUUU ZZH
R 141447Z NOV 07
FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC 7674
INFO RUEHBR/AMEMBASSY BRASILIA 8795
RUEHRI/AMCONSUL RIO DE JANEIRO 8439
RUEHRC/AMCONSUL RECIFE 3879
RUEHAC/AMEMBASSY ASUNCION 3175
RUEHBU/AMEMBASSY BUENOS AIRES 2939
RUEHCV/AMEMBASSY CARACAS 0601
RUEHMN/AMEMBASSY MONTEVIDEO 2498
RUEHLP/AMEMBASSY LA PAZ 3565
RUEHSG/AMEMBASSY SANTIAGO 2202
RUCPDOC/USDOC WASHDC 2952
RUEATRS/DEPT OF TREASURY WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUCPDOC/USDOC WASHDC 2953

UNCLAS SECTION 01 OF 02 SAO PAULO 000917

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STATE PASS USTR FOR KATE SUCKWORTH
TREASURY FOR JHOEK
USDOC FOR 4332/ITA/MAC/WH/OLAC
USDOC ALSO FOR 3134/USFCS/OIO

E.O. 12958: N/A

TAGS: ECIN ETRD EINV ECON BTIO CVIS AR BR
SUBJECT: Brazil-U.S. CEO Forum Follow-Up

REF: Brasilia 002087

¶1. (U) SUMMARY: In a November 7 meeting with Josu Gomes da Silva, the Brazilian Chairman of the U.S.-Brazil CEO Forum and President and CEO of Coteminas, Ambassador Sobel and FCS Officer discussed follow-up activities to the October 2007 CEO Forum. All participants agreed that a positive conclusion of a bilateral tax treaty, and forward movement on an investment grievance procedure between the U.S. and Brazil, would be key indicators of a successful CEO Forum follow-up. In order to maintain the positive momentum started by the CEO Forum, all supported the need to establish benchmarks for various activities. As a start, Gomes da Silva reiterated his intention to engage the Government of Brazil (GOB) at the highest levels to advance the CEO Forum recommendations and promised feedback by the middle of December on his efforts. END SUMMARY

Bilateral Tax Treaty

¶2. (U) Ambassador Sobel and Gomes da Silva discussed the hurdles that remain in getting a bilateral tax treaty passed. Lingering GOB concerns about lost tax revenue and the difficulty in bringing the Brazilian tax system into compliance with requisite standards for a tax treaty with the U.S. figured prominently in the discussion. In order to seize the momentum generated by the CEO Forum on this issue, Gomes da Silva agreed to meet many of the key decision makers in the GOB within the next two weeks to discuss this issue including: Dilma Roussef (President's Chief-of-Staff); Miguel Jorge (Minister of Development, Industry and Trade); Guido Mantega (Minister of Finance); and Jorge Rachid (Secretary General of the revenues and customs agency, Receita Federal). Gomes da Silva will encourage the GOB to provide by mid-December a formal written overview on the GOB's key pending concerns regarding the tax treaty. The Ambassador also stated that he understood that the Sao Paulo industrial federation, FIESP, Brazil's largest business lobby, has agreed to support a bilateral tax treaty when it comes up on the legislative calendar.

Investment Disputes

¶13. (U) Gomes da Silva further emphasized that Brazil needs to move forward on an investment grievance procedure with the U.S. During this discussion, he stated the GOB's concerns regarding dispute settlement procedures in a potential BIT with the U.S., and whether acceptance of any grievance procedures would require changes in Brazilian law. Gomes da Silva agreed to look into this more closely and discuss these concerns directly with Dilma Rousseff. Ambassador Sobel underscored that the USG cannot diverge substantially from the framework of the model BIT text to meet Brazilian needs (for example, by not including dispute settlement procedures).

Benchmarks and other issues

¶14. (U) Ambassador Sobel and Gomes da Silva agreed on the need for benchmarks in order to measure progress of the CEO Forum. Gomes da Silva reported that he and Tim Solso (CEO of Cummins Inc. and Chair of the U.S. Section of the CEO Forum) have agreed to develop two benchmarks for each Forum recommendation. Leaders within the Brazilian and U.S. sectors of the Forum have been identified for each recommendation.

¶15. (U) Regarding the omnipresent issue of visas, Ambassador Sobel recalled the long-standing U.S. proposal to restore the 10-year visa which to date has gone unanswered by Itamaraty. Ambassador Sobel also highlighted that the visa situation for Argentine nationals was misstated at the Forum, as Argentine travelers do in fact require B-1 visas for business travel.

SAO PAULO 00000917 002 OF 002

¶16. (U) The discussion turned to the Forum commitment to promote contact between venture capital funds and promote infrastructure investment. Ambassador Sobel outlined Embassy initiatives to link up U.S. investment banks to Brazilian innovators and development officials in order to increase the amount of venture capital entering Brazil, especially initial start-up capital. Ambassador Sobel noted his continued emphasis on the CEO Forum in recent press encounters with all of Brazil's major news outlets, and encouraged Gomes da Silva to look for public opportunities to reiterate the Forum's message. They discussed a possible joint press conference (with the two CEO Form Chairs) after the benchmarking exercise is completed.

¶17. (SBU) COMMENT: Ambassador Sobel and Gomes da Silva agreed that the GOB's attention right now is focused on legislative passage of the Provisional Contribution on Financial Transactions (CPMF), a tax on financial transactions for which the Lula Administration has dedicated significant political capital. At the same time, President Lula has been making overtures to the business community, and seems increasingly at ease engaging on issues of interest to the business community. This has been evidenced not only in recent federal highway concessions, but also in a gathering President Lula had with 100 Brazilian CEOs that took place in October shortly after the CEO Forum. While Brazil's political and economic environment is as conducive as ever to making progress on the recommendations of the CEO Forum, there are still technical and political hurdles to overcome on some key issues including international arbitration and a Bilateral Tax Treaty. END COMMENT

¶17. (U) This cable was cleared by FCS Sao Paulo, Embassy Brasilia and approved by Ambassador Sobel.